



HARFORD COUNTY, MARYLAND

Office of the County Auditor

AUDIT OF ACCOUNTS PAYABLE CONTROLS

Report Highlights

Why We Did This Audit

This audit was conducted as part of the County Auditor's risk-based Annual Audit Plan approved by the County Council for FY2021.

What We Found

We noted that controls are adequate to ensure that only valid debts are paid to the correct vendors.

Report Number: 2021-A-12

Date Issued: 05/17/2021

Council Members and County Executive Glassman:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of Accounts Payable Controls. The results of that audit and our findings are detailed in the attached report. We would like to thank the members of management for their cooperation during the audit.

The audit found payments were made for valid County expenses. They were made timely and only to valid vendors. Prior audit issues have been addressed.

The audit team is available to respond to any questions you have regarding the attached report.

Sincerely,

Chrystal Brooks, CPA

Chrystal Brooks
County Auditor

cc: Mr. Robert Sandlass, Treasurer



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REVIEW RESULTS

We have audited Accounts Payable Controls for the period of 07/01/2019 through 04/30/2020. Our opinion, based on the evidence obtained, is controls are adequate to ensure that payments are only made for valid debts and are accurate and timely. The audit approach focused on testing the key controls that address management's objectives for the process. Conclusions drawn are below.

Risk	Expected Control	Conclusion
Payment amounts are incorrect	<ul style="list-style-type: none"> • Purchase orders are created and invoices are linked to the purchase orders 	Satisfactory
	<ul style="list-style-type: none"> • Accounts Payable reviews and approves invoices that departments have submitted for payment 	Satisfactory
Payments are issued on invalid invoices	<ul style="list-style-type: none"> • Invoices are reviewed and entered by departmental users with knowledge of the product or service received 	Satisfactory
	<ul style="list-style-type: none"> • Large purchases require supervisory, budget and procurement approval 	Satisfactory
	<ul style="list-style-type: none"> • System controls prevent entry of duplicate invoice numbers 	Satisfactory
Unauthorized payments are forwarded to the bank for processing	<ul style="list-style-type: none"> • Control totals must be confirmed before payments are released by the bank 	Satisfactory
	<ul style="list-style-type: none"> • Processed payments are reconciled to the check register 	Satisfactory
Fraudulent or unauthorized vendors are paid	<ul style="list-style-type: none"> • Vendors are approved before being added in the system. 	Satisfactory
	<ul style="list-style-type: none"> • Changes to vendor information are performed by authorized users and are reviewed independently 	Satisfactory
Cash is not effectively utilized	<ul style="list-style-type: none"> • Payments are issued just prior to their due dates 	Satisfactory

Though none was required, Management has been provided an opportunity to respond to this report; accordingly, none was provided.

BACKGROUND, OBJECTIVES, SCOPE AND METHODOLOGY

The Accounts Payable (A/P) unit within the Department of the Treasury is responsible for processing and approving payment documents related to Vendor Invoices, Ad Hoc Payments, Tax Refunds and Employee Expense Reports. Purchases are initiated at the department level and require various approvals depending on the type and amount of the transaction. A/P reviews backup documentation for the purchase to ensure proper accounting codes and correct vendor address and payment amount prior to payment. Departments can only initiate payments for vendors that are already in the vendor list. To ensure proper segregation of duties, Procurement staff are responsible for adding new vendors and making changes to existing vendors. After final approval by A/P staff, payments are processed for check printing or electronic payment on a weekly basis.

During our 22-month review period, there were nearly 36,000 check or ACH payments issued by the Accounts Payable Department. Those payments totaled approximately \$1.14 billion.

The objective of the audit is to determine if controls related to Accounts Payable are adequate to ensure that only valid vendors and debts are paid by the County. The scope is limited to payments issued via check, wire or electronic payment and will exclude cash reimbursements, payroll and appropriations to component units and affiliated agencies.

The audit focused on activity during the period of 07/01/2019 through 04/30/2020. We have reviewed the issues reported in a prior audit reports 2013-A-04 and 2017-A-14 and considered their impact on this audit. All the issues included in those reports had been closed prior to starting this audit. Our audit procedures included interviewing personnel, observation and testing. Specifically, we met with Accounts Payable staff to confirm our understanding of the payment process. We reviewed a representative sample of payments to confirm that they were supported by valid invoices, paid accurately and timely and were recorded in the proper accounts. We performed data analysis to identify potentially duplicated payments and to confirm that payment dates appear reasonable. Finally, we reviewed the vendor file to determine potentially problematic or duplicate vendors; and we confirmed that changes to vendor information were authorized and reviewed.

Harford County management is responsible for establishing and maintaining effective internal controls. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets and compliance with applicable laws, rules and regulations are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected.

The audit was performed in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Team:

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